

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3774-07  
Bill No.: Truly Agreed To and finally Passed SCS #2 for HCS for HB 1149  
Subject: Bonds - General Obligation and Revenue; Sewers and Sewer Districts; Utilities;  
Water Resources and Water Districts  
Type: Original  
Date: May 31, 2006

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
Safe Drinking Water Fund *	\$0	\$1,121,031	(\$355,819)
NRPF Water Permit Fees **	\$0	(\$750,432)	(\$731,649)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$370,599</b>	<b>(\$1,087,468)</b>

\*This impact reflects changes to the Drinking Water Primacy Fees revenue. It does not include revenue generated from laboratory services and program administration fees, laboratory certification fees, and operator certification fees which are not impacted by this proposal.

\*\* Assumes that a 20% fee increase would offset projected revenue shortfalls.

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### FISCAL ANALYSIS

#### ASSUMPTIONS

Officials from the **Missouri Senate**, the **Office of the State Treasurer**, the **Office of Administration**, **Division of Budget and Planning**, the **Department of Health and Senior Services**, the **Department of Transportation**, assume no fiscal impact to their agencies.

Officials from the **Office of Administration, Division of Accounting** assume there would be no fiscal impact relating to this legislative authorization increase, there would be a fiscal impact if any of the currently outstanding authorization is actually issued. There would be one time costs of approximately \$186,496 for each issuance and debt service cost of approximately \$700,000 for every \$10 million dollars issued.

In response to a previous version of this proposal, officials from the **Missouri House of Representatives** and **Hickory County** assumed no fiscal impact to their agencies.

In response to a similar proposal, officials from the **Department of Agriculture** assume no fiscal impact to their agency.

ASSUMPTION (continued)

Water Pollution Control Bonds

Officials from the **Department of Natural Resources (DNR)** assumed that bonds are sold on an as needed basis. Bond sales lag authorization by approximately 3 years.

37(e) money is approved for \$10 million to be spent as follows:

\$7 Million for the 40% State Construction Grant Program

\$3 Million for the Rural Water and Sewer grants

37(g) money is approved for \$10 Million to be spent as follows:

\$5 Million for Rural Water grants and loans

\$5 Million for Rural Sewer grants and loans

37(h) money is approved for \$20 Million to be spent as follows:

\$10 Million for storm water grants

\$10 Million for storm water loans

DNR officials stated they expected no direct impact from the authorization for additional bond issues.

Drinking Water Primacy Fee

Officials from the **Department of Natural Resources** assume in FY06 the existing primacy fee rate structure is anticipated to generate approximately \$2.8 million. However the current costs for these efforts is approximately \$4 million. The funding needed to cover the difference has come from the existing fund balance.

The proposed legislation would enable the department to cover the revenue shortfall to maintain the current level of effort and provide approximately \$.5 million to provide the analytical support needed to implement new federal regulations filed in January 2006.

ASSUMPTION (continued)

<i>Water System Service Connections</i>	<i>No. of Systems in Rate Bracket</i>	<i>Total No. of Active Service Connections</i>	<i>Current Rate</i>	<i>Current Revenues</i>	<i>Proposed Rate</i>	<i>Proposed New Revenues</i>
<i>1 - 1,000</i>	<i>1,109</i>	<i>237,058</i>	<i>2</i>	<i>464,634</i>	<i>3.24</i>	<i>752,707</i>
<i>1,001 - 4,000</i>	<i>184</i>	<i>352,116</i>	<i>1.84</i>	<i>634,936</i>	<i>3</i>	<i>1,033,841</i>
<i>4,001 - 7,000</i>	<i>33</i>	<i>173,198</i>	<i>1.67</i>	<i>283,456</i>	<i>2.76</i>	<i>467,702</i>
<i>7,001 - 10,000</i>	<i>16</i>	<i>132,269</i>	<i>1.5</i>	<i>194,435</i>	<i>2.4</i>	<i>310,449</i>
<i>10,001 - 20,000</i>	<i>5</i>	<i>71,213</i>	<i>1.34</i>	<i>93,517</i>	<i>2.16</i>	<i>150,813</i>
<i>20,001 - 35,000</i>	<i>7</i>	<i>188,090</i>	<i>1.17</i>	<i>215,664</i>	<i>1.92</i>	<i>354,002</i>
<i>35,001 - 50,000</i>	<i>1</i>	<i>46,696</i>	<i>1</i>	<i>45,762</i>	<i>1.56</i>	<i>71,389</i>
<i>50,001 - 100,000</i>	<i>1</i>	<i>75,929</i>	<i>0.84</i>	<i>62,505</i>	<i>1.32</i>	<i>97,924</i>
<i>&gt; 100,000</i>	<i>3</i>	<i>609,920</i>	<i>0.66</i>	<i>394,496</i>	<i>1.08</i>	<i>644,942</i>
<b><i>TOTAL REVENUES</i></b>				<b><i>\$2,797,138</i></b>		<b><i>\$4,528,668</i></b>

The department is obligated by law to provide all public water systems in Missouri with the laboratory support required by the Safe Drinking Water Act.

A major change to the Radionuclide Rule, promulgated in December, 2000, was the requirement to test every community water system source where it enters the distribution system; the previous rule required only one sample per system. This requirement has significantly increased the annual cost of the department's contract for radionuclide analyses - that cost rose from \$168,000 to \$480,000 for FY 2006.

New federal rules promulgated in January 2006, to support the Safe Drinking Water Act will have a significant impact on both program workload and analytical expense. These rules are the Long Term 2 Surface Water Treatment Rule (LT2), the Stage 2 Disinfectants and Disinfection Byproducts Rule (Stage 2 D/DBP) and the Groundwater Rule.

ASSUMPTION (continued)

There are currently 83 surface water systems in Missouri. The implementation dates, sample frequency and duration is based upon the size of the public water system; the larger systems must begin 24 consecutive months of source water testing for cryptosporidium, E.coli and turbidity by July of 2006. The department has determined that there will be four implementation cycles for Missouri's water systems for this new rule. The testing must be performed using EPA Method 1622 or 1623 in a laboratory certified by EPA to run those methods. The cost per sample, to include the cost of shipping the sample to the laboratory, is projected to be \$576. There are stringent quality control requirements inherent of these analytical methods that frequently (25%) result in additional filtering of water samples thereby increasing the sampling costs. The costs for additional filtering and analysis is \$250 per sample.

There are 61 surface water systems that serve less than 10,000 people. They must submit two samples per month for 12 consecutive months for E.coli bacteria. If trigger levels of E.coli are exceeded, these smaller systems will also be required to test for cryptosporidium. The department projects that as many as 75% of these smaller systems will exceed these limits resulting in the need for the cryptosporidium testing. The per sample contract cost for E.coli analysis, to include to cost of shipping the sample, is projected to be \$45. The department has applied a conservative increase of 2.5% each year to the costs.

One significant impact of the Stage 2 D/DBP rule is the requirement to test consecutive systems for Trihalomethanes (THMs) and Haloacetic Acids (HAAs). There are 276 consecutive systems (systems that buy their water from other water systems). Another large impact is the requirement for every system to do an Initial Distribution System Evaluation (IDSE) to identify areas in their respective distribution systems that have elevated levels of DBPs. IDSE waivers are available to systems under 500 population or if the system has two years of qualifying compliance data.

The department's Environmental Services Program currently analyzes approximately 2,000 THM samples and 1,600 HAA samples for Missouri's public water systems each year; adding an additional 276 systems would double that workload.

There are a total of 275 systems that would be required to do an IDSE requiring additional THM and HAA testing. This initial implementation of this monitoring begins in October 2006 with the final implementation beginning in April 2008.

The projected per sample cost for THMs, to include the cost of shipping the sample to the laboratory, is \$55 and the projected per sample costs for HAAs, including the cost of shipping the sample, is \$47. The program has applied a conservative increase of 2.5% each year to the costs.

ASSUMPTION (continued)

In addition to the on-going sample analysis costs, the department is requesting the addition of one laboratory technician to process these additional samples and the purchase of an Autosampler at \$40,000 and a Gas Chromatograph at \$80,000.

Impaired Waters

Officials from the **Department of Natural Resources (DNR)** assume this proposal would require a public notice to be placed in five major newspapers for the proposed list of impaired waters of the state, to include the 90 day advance notice of date, time and place of the public hearing would cost approximately \$1,363 for each list.

St. Louis Post-Dispatch \$696 daily, \$915.87 Sunday, = \$5.00 affidavit fee  
Kansas City Star \$230.05 daily, \$242.90 Sunday  
Springfield News-Leader \$76.18 daily, \$89.98 Sunday  
Moberly Monitor-Index \$70.40  
Jefferson City News Tribune \$39.20

Cost savings of no longer having to do the 303(d) list by rule would likely offset the publication cost outlined in this proposal.

Officials from the **Office of the Attorney General (AGO)** assume this proposal would lead to increased litigation since complainants could file in their home county rather than being required to file in Cole County; complainants could litigate stream-by-stream rather than on an overall basis; and the proposal shortens the time between publication of a proposed impaired streams list and filing with the federal government. The AGO provided an estimated cost for three new attorneys with benefits, equipment, travel, office, communications, data processing support, and other expenses for a total of \$172,790 in FY 2007, \$183,723 in FY 2008, and \$188,496 in FY 2009.

**Oversight** assumes that any additional litigation resulting from these regulatory actions would be minimal and could be absorbed with existing resources. If unanticipated additional costs or if multiple proposals are enacted which result in additional litigation, resources could be requested through the budget process.

ASSUMPTION (continued)

Innovative Wastewater Treatment Technology

Officials from the **Department of Natural Resources** assume this proposal would allow the director or the commission to require the filing or posting of a bond as a condition for the issuance of permits for construction of temporary water treatment facilities that utilize innovative wastewater treatment technology. The department would not anticipate any direct fiscal impact.

Water Pollution Permit Fees Extension

In FY06 the water permit fee rate structure is expected to generate approximately \$3.9 million. These fees support the permitting, engineering, inspection and compliance activities of the department's water pollution control efforts. However the current costs for these efforts is approximately \$8.2 million. The funding needed to cover the difference has come from federal grants, general revenue and managing fund expenditures with available cash, which detracts from the amount of work the department is able to accomplish.

	FY 2003	FY 2004	FY 2005
Water Permit Fees	\$4,386,639	\$4,135,018	\$4,468,517
Federal Funds	\$4,410,999	\$3,036,821	\$2,903,435
General Revenue	\$1,237,302	\$1,601,761	\$911,590
Total	\$10,034,940	\$8,773,600	\$8,283,542

Each fiscal year, the amount of permit revenues deposited into the permit fees subaccount of the Natural Resources Protection Fund, Water Permit Fees subaccount, corresponds to permitting activity. The ending balance in the Permit Fees subaccount for FY03 - \$4,440.77; FY04 - \$327,897.27; and FY05 - \$389,270.38. Each year the total funding from fees, federal funds and general revenue available to support the department's primary water pollution control efforts, including permitting, has decreased.

Extension of the current fee structures would maintain the current level of service in the short term. However as costs continue to rise and federal sources of funds are reduced, there is concern the level of service will decline. The department assumes the level of services would have to be adjusted to match the funds available.

**ASSUMPTION** (continued)

By extending the water permit fee rate structure, this proposal is estimated to generate an estimated \$4.5M in revenue annually. The department assumes that a 20% increase in fees across the board would offset the estimated revenue shortfalls.

**Oversight** assumes this proposed legislation extends an existing provision by removing or changing the expiration date. Oversight assumes removing or changing the expiration date will extend any fiscal impact associated with the existing provision. Therefore, Oversight has reflected a zero fiscal impact for this provision in the fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
<b>SAFE DRINKING WATER FUND</b>			
<u>Revenue - Department of Natural Resources</u>			
Drinking Water Primacy Fees*	<u>\$0</u>	<u>\$1,731,530</u>	<u>\$4,528,668</u>
Total	<u>\$0</u>	<u>\$1,731,530</u>	<u>\$4,528,668</u>
<u>Cost - Department of Natural Resources</u>			
Salaries	\$0	\$0	(\$23,985)
Fringe Benefits	\$0	\$0	(\$10,568)
Equipment & Expense	\$0	(\$129,614)	-6194\$0
Other Fund Costs	<u>\$0</u>	<u>(\$480,885)</u>	<u>(\$4,843,740)</u>
Total	<u>\$0</u>	<u>(\$610,499)</u>	<u>(\$4,884,487)</u>
<b>ESTIMATED NET EFFECT ON SAFE DRINKING WATER FUND</b>	<b><u>\$0</u></b>	<b><u>\$1,121,031</u></b>	<b><u>(\$355,819)</u></b>

\*This revenue only reflects changes to the Drinking Water Primacy Fees. It does not include revenue generated from laboratory services and program administration fees, laboratory certification fees, and operator certification fees which are not impacted by this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
<b>NRPF WATER PERMIT FEES FUND</b>			
<u>Revenue - DNR</u>			
Permit Fees **	\$0	\$1,792,748	\$4,481,870
<u>Expenditures - DNR</u>			
Water Sample Testing	<u>\$0</u>	<u>(\$2,543,180)</u>	<u>(\$5,213,519)</u>
<b>ESTIMATED NET EFFECT ON NRPF WATER PERMIT FEES FUND</b>	<b><u>\$0</u></b>	<b><u>(\$750,432)</u></b>	<b><u>(\$731,640)</u></b>

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\*\* Assumes fee increase would offset revenue shortfalls.

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

#### FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

#### DESCRIPTION

This bill changes the laws regarding the regulation of water. In its main provisions, the bill would:

- Authorize the Board of Fund Commissioners to issue additional bonds for grants and loans under Article III of the Missouri Constitution. The additional amounts authorized would be \$10 million for water pollution control, improvement of drinking water systems, and storm water control; \$10 million for rural water and sewer; and \$20 million for storm water control in first classification counties and St. Louis City;

DESCRIPTION (continued)

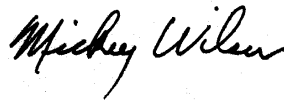
- Increase the maximum amount of fees that can be charged by the Department of Natural Resources in order to comply with the federal Safe Drinking Water Act and extend the authorization to impose fees until September 1, 2012. The department could charge lower fee amounts at its discretion;
- Authorize public water supply districts, sewer districts, and municipalities to install and maintain sewer and water lines in public highways, roads, and streets subject to the reasonable rules of the jurisdictional governing body. The Highways and Transportation Commission would retain authority to monitor construction in any state highway right-of-way;
- Authorize the Clean Water Commission to provide listings required by Section 303(d) of the federal Clean Water Act to the federal Environmental Protection Agency. Procedures are specified in the bill and include public notice and judicial review requirements;
- Allow the director or the commission to require a bond for the construction of innovative, but unproven, wastewater treatment facilities that are not approved by the federal government or another state's environmental regulatory agency;
- Extend the authorization for certain permit fees under Sections 644.053 and 644.053, RSMo, until December 31, 2009;
- Revise the definition of "point source" in Section 644.016 to exclude agricultural storm water discharges and flows from irrigated agriculture; and
- Provide an exemption from the state equal men and women's restroom facilities requirement for the new St. Louis baseball stadium until one year after its completion.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Missouri Senate  
Missouri House of Representatives  
Office of the State Treasurer  
Office of the Attorney General  
Office of Administration  
    Division of Accounting  
    Division of Budget and Planning  
Department of Agriculture  
Department of Health and Senior Services  
Department of Natural Resources  
Department of Transportation  
Hickory County

Mickey Wilson, CPA

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Director  
May 31, 2006